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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 SS-15 L-02 EB-04 INR-05 SP-02

MMS-01 IGA-01 DRC-01 RSC-01 /048 W

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R 191615Z OCT 74

FM AMEMBASSY QUITO

TO SECSTATE WASHDC PRIORITY 2922

C O N F I D E N T I A L SECTION 1 OF 2 QUITO 6949

E.O. 11652: GDS

TAGS: PFOR, EC

SUBJ: AID PHASEOUT: PROPOSED AIDE MEMOIRE AND MEMORANDUM

REF: A. STATE 228524; B. QUITO 6902

1. AS STATED REF B, THERE FOLLOWS TEXT OF PROPOSED AIDE MEMOIRE AND ACCOMPANYING BACKGROUND MEMORANDUM WHICH WILL BE USED IN DISCUSSIONS WITH GOE OFFICIALS ON AID PHASEOUT. THE DEPARTMENT'S CONCURRENCE AND/OR COMMENTS ARE REQUESTED.

2. "AIDE MEMOIRE

THE GOVERNMENT OF THE UNITED STATES HAS BEEN COLLABORATING IN THE ECONOMIC AND SOCIAL DEVELOPMENT PROGRAMS OF THE GOVERNMENT OF ECUADOR SINCE 1942. FROM 1942 TO JUNE 30, 1974 THE VALUE OF THIS PARTICIPATION INVOLVING FINANCIAL AND TECHNICAL ASSISTANCE AND FOODSTUFFS HAS REACHED A TOTAL OF US \$233 MILLION.

3. THE UNITED STATES REALIZES THAT THE DEVELOPMENT OF ECUADOR IS THE HIGHEST PRIORITY OBJECTIVE OF THE PRESENT GOVERNMENT. WE NOTE THE RECENT DRAMATIC INCREASE IN THE RATE OF ECONOMIC GROWTH OF ECUADOR, DUE TO GOOD MANAGEMENT OF REVENUES DERIVING FROM THE PETROLEUM INDUSTRY. WE WISH TO CONTINUE COOPERATING WITH THE GOVERNMENT OF ECUADOR IN IMPROVING THE HEALTH AND WELFARE AND INCREASING THE INCOME OF ALL ECUADOREANS. THE UNITED STATES REMAINS COMMITTED TO MEETING THE CHALLENGE OF INTERDEPENDENCE THAT FORMS THE FOUNDATION OF WORLD PROSPERITY IN THE MODERN ERA.

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4. THE UNITED STATES HAS ALSO MADE CLEAR ITS DESIRE FOR

INCREASINGLY CORDIAL RELATIONS WITH ECUADOR BY A SERIES OF UNILATERAL ACTIONS INCLUDING THE DECISION BY THE PRESIDENT OF THE UNITED STATES TO LIFT THE SUSPENSION OF FOREIGN MILITARY SALES TO ECUADOR AND TO WAIVE THE ASSISTANCE DEDUCTION PROVISIONS OF THE US FISHERMAN'S PROTECTIVE ACT. THE UNITED STATES IS PLEASED TO NOTE THAT THE GOVERNMENT OF ECUADOR HAS RECIPROCATED THIS DESIRE FOR BETTER RELATIONS.

5. AT THE SAME TIME, IT IS EVIDENT THAT RECENT DRAMATIC CHANGES IN WORLD PETROLEUM PRICES HAVE DRASTICALLY ALTERED THE RELATIVE FINANCIAL POSITIONS OF THE NATIONS OF THE WORLD AND THAT MOST COUNTRIES NOW ARE SUFFERING FROM MUCH HIGHER COSTS OF PETROEUM IMPORTS. THE DANTERS OF A POSSIBLE COLLAPSE OF THE WORLD ECONOMY WHICH MIGHT RESULT FROM THE INABILITY OF VARIOUS COUNTRIES TO COPE WITH THE EFFECT OF THIS ON THEIR BALANCE OF PAYMENTS IS AN INCREASING THREAT TO THE WORLD PROSPERITY TO WHICH THE UNITED STATES GOVERNMENT IS COMMITTED.

6. ASSISTANCE PROGRAMS OF THE UNITED STATES GOVERNMENT MUST BE ADAPTED TO THE CHANGED FINANCIAL REALITIES OF THE CONTEMPORARY WORLD. FACED WITH LIMITED RESOURCES FOR ASSISTANCE, THE UNITED STATES MUST GIVE INCREASED ATTENTION TO THOSE OF THE LEAST DEVELOPED COUNTRIES OF LATIN AMERICA AND THE WORLD THAT HAVE BEEN MOST ADVERSELY AFFECTED BY INCREASED ENERGY COSTS. THESE ARE COUNTRIES THAT CANNOT HOPE TO PAY FOR THEIR DEVELOPMENT ASSISTANCE NEEDS. CONTINUED CONGRESSIONAL AND PUBLIC SUPPORT IN THE UNITED STATES FOR DEVELOPMENT ASSISTANCE IS DEPENDENT UPON THE UNITED STATES TAKING INTO ACCOUNT THESE CHANTES.

7. ACCORDINGLY, THE UNITED STATES GOVERNMENT HAS DECIDED TO MODIFY ITS ASSISTANCE PROGRAM TO THOSE COUNTRIES LIKE ECUADOR WHICH ARE SIGNIFICANT EXPORTERS OF PETROLEUM. THIS MODIFICATION, IN GENERAL, CONTEMPLATES CONTINUING AVAILABILITY OF UNITED STATES TECHNICAL COOPERATION IN ECUADOR'S DEVELOPMENT PROCESS, BUT IN 1975 SHIFTING THE FINANCING OF THAT ASSISTANCE FROM THE PRESENT GRANT BASIS TO A CONCESSIONAL LOAN BASIS AS A TRANSITION MEASURE.
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FINALLY, BY JULY 1, 1977, SUCH FINANCING WOULD BECOME THE RESPONSIBILITY OF THE GOVERNMENT OF ECUADOR.

8. THUS, THE UNITED STATES GOVERNMENT PROPOSES TO CONTINUE PRESENT TECHNICAL ASSISTANCE PROJECTS, OBLIGATING GRANT FUNDS DURING US FISCAL YEAR 1975 (I.E., THROUGH JUNE 30, 1975) IN ORDER THAT THESE PROJECTS MAY BE TERMINATED IN AN ORDERLY WAY BY JUNE 30, 1976, IF NOT COMPLETED EARLIER. IN ADDITION, CONCESSIONAL LOAD FUNDING WOULD BE MADE AVAILABLE TO THE GOVERNMENT OF ECUADOR BEFORE

JUNE 30, 1975, TO COVER THE EXTERNAL COSTS OF FURTHER TECHNICAL ASSISTANCE FOR THE ABOVE MENTIONED ON-GOING GRANT PROJECTS, AND FOR CLOSELY RELATED PRIORITY PROJECTS IN EDUCATION, AGRICULTURE, NUTRITION, HEALTH AND FAMILY PLANNING THROUGH JUNE 30, 1977. THOSE LOANS WHICH WERE PREVIOUSLY SIGNED AND WHOSE UNDISBURSED BALANCES ARE APPROXIMATELY \$18 MILLION, MAY CONTINUE TO BE DISBURSED IN ACCORDANCE WITH THE LOAN AGREEMENTS AND THE USUAL PRINCIPLES OF PRUDENT MANAGEMENT AND EFFECTIVE AND TIMELY USE OF THE FUNDS. THE REMAINING LOAN BALANCE OF \$1.9 MILLION, UNDER THE HOUSING INVESTMENT GUARANTEE PROGRAM, ALSO CAN BE FULLY UTILIZED. DONATION OF FOOD COMMODITIES UNDER US PUBLIC LAW 480 COULD BE CONTINUED ON A DECLINING BASIS THROUGH JUNE 30, 1976 IN ORDER TO PROVIDE A TRANSITION PERIOD IN WHICH THE GOVERNMENT OF ECUADOR CAN TAKE STEPS TO PROVIDE CONTINUITY IN THE MATERNAL AND CHILD HEALTH AND SCHOOL FEEDING PROGRAMS. FINALLY, SELECTED REGIONAL LATIN AMERICAN AND INTER-REGIONAL PILOT PROJECTS, SUCH AS THE PROPOSED PILOT HEALTH DELIVERY AND SOIL FERTILITY PROJECTS, MAY BE FINANCED IN ECUADOR ON A GRANT BASIS.

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FM AMEMBASSY QUITO

TO SECSTATE WASHDC PRIORITY 2923

C O N F I D E N T I A L SECTION 2 OF 2 QUITO 06949

9. THE UNITED STATES BELIEVES THAT THIS MODIFIED FRAME-
WORK FOR CONTINUING COOPERATION WITH ECUADOR'S DEVELOPMENT
OFFERS CERTAIN ADVANTAGES. THE TRANSITION PROCESS MADE
POSSIBLE WITH A CONCESSIONAL LOAN FOR TECHNICAL ASSISTANCE
WILL ALLOW THE GOVERNMENT OF ECUADOR TO EXPAND THOSE
PROJECTS NOW UNDERWAY IN A MANNER IT DEEMS DESIRABLE AS
WELL AS TO ADD CERTAIN NEW ASPECTS WITHIN THESE PRIORITY

AREAS, IF IT WISHES. IN ADDITION, THE TRANSITION WILL ENABLE THE GOVERNMENT OF ECUADOR TO PREPARE IN AN ORDERLY FASHION TO SECURE FOR ITS OWN ACCOUNT THE TECHNICAL ASSISTANCE THAT MAY SUBSEQUENTLY BE NEEDED IN VARIOUS ASPECTS OF THE DEVELOPMENT PROCESS. IN THIS CONNECTION, THE UNITED STATES GOVERNMENT, THROUGH THE AGENCY FOR INTERNATIONAL DEVELOPMENT, HAS MANY AND VARIED CAPABILITIES AND, UNDER THE NEW FRAMEWORK FOR COOPERATION, TECHNICAL ASSISTANCE SECURED BY THE GOVERNMENT OF ECUADOR FOR ITS OWN ACCOUNT FROM THE UNITED STATES, CAN BE FOR A BROAD RANGE OF SECTORS AND SERVICES RATHER THAN BEING LIMITED TO THOSE AREAS OF ASSISTANCE CURRENTLY GIVEN PRIORITY BY THE UNITED STATES CONGRESS. WE LOOK FORWARD TO ASSISTING YOU IN LOCATING AND CONTRACTING THE KINDS OF ASSISTANCE WHICH WE BELIEVE THE UNITED STATES CAN SUPPLY ON VERY ADVANTAGEOUS TERMS.

10. WE WISH TO WORK TOGETHER WITH THE GOVERNMENT OF ECUADOR TO DEVELOP A MUTUAL APPROACH TO THE TRANSITION IN OUR ASSISTANCE RELATIONSHIP AS OUTLINED ABOVE. WE HOPE THAT THE TRANSITION WILL BE ORDERLY AND PRODUCTIVE AND THEREFORE WOULD LIKE TO
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BEGIN DETAILED DISCUSSIONS AS RAPIDLY AS POSSIBLE. WE PROPOSE TO DISCUSS THESE SAME POINTS IN THE NEAR FUTURE WITH THE MINISTERS OF STATE HOLDING THE PORTFOLIOS OF FINANCE, EDUCATION, HEALTH, AGRICULTURE, AND OTHERS AS MAY BE APPROPRIATE, AS WELL AS WITH THE PRESIDENT OF THE NATIONAL PLANNING BOARD.

ATTACHMENT:

MEMORANDUM ON PRESENT AID ACTIVITIES IN ECUADOR"

11. "MEMORANDUM

SUBJECT: PRESENT ACTIVITIES OF AID IN ECUADOR

UNITED STATES GOVERNMENT PROGRAMS OVER THE YEARS, HAVE ASSISTED IN THE DEVELOPMENT OF ECUADOR IN SUCH ACTIVITIES AS THE CONSTRUCTION OF THOUSANDS OF SCHOOL-ROOMS AND THE ERADICATION OF MALARIA. THEY HAVE HELPED CREATE, AMONG OTHERS, THE FOLLOWING PUBLIC AND PRIVATE INSTITUTIONS: COMPANIA FINANCIERA DEL ECUADOR (COFIEC), COMISION DE VALORES/CORPORACION FINANCIERA NACIONAL (CV/CFN), INSTITUTO NACIONAL DE INVESTIGACIONES AGROPECUARIAS (INIAP), THE SAVINGS AND LOAN SYSTEM, AND ORGANIZACION COMERCIAL ECUATORIANA DE PRODUCTOS ARTESANALES (OCEPA). IN ADDITION, UNITED STATES GOVERNMENT PROGRAMS AIDED THE CONSTRUCTION OF A NUMBER OF ECUADOR'S MAJOR HIGHWAYS, AND THE FEEDING OF HUNDREDS OF THOUSANDS OF BABIES AND MOTHERS, SCHOOL CHILDREN, AND SICK

AND AGED PERSONS. THESE INSTITUTIONS AND THESE PROJECTS ARE INTEGRAL PARTS OF CONTEMPORARY ECUADOR.

12. AT THE PRESENT TIME, AID ACTIVITIES IN ECUADOR CONSIST PRIMARILY OF SUPPORT OF PROGRAMS IN EDUCATION, AGRICULTURE, HEALTH, FAMILY PLANNING AND NUTRITION. IN EDUCATION, AID HAS BEEN COOPERATING WITH THE MINISTRY OF EDUCATION IN THE CONSTRUCTION OF PRIMARY SCHOOLS AND IN THE PREPARATION OF MODERN TEXTBOOKS AND IN MAKING THEM AVAILABLE THROUGHOUT THE COUNTRY. AN INTEGRAL PART OF THIS PROCESS HAS BEEN THE TRAINING OF TEACHERS AND SUPERVISORS IN THE MOST EFFECTIVE USE OF THESE MATERIALS. TO EXTEND THE AVAILABILITY OF EDUCATION TO THE LOWER INCOME AND GEOGRAPHICALLY MORE REMOTE ELEMENTS OF THE POPULATION, AID HAS RECENTLY

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SUPPORTED THE MINISTRY OF EDUCATION'S EFFORTS TO DEVELOP NEW, MORE EFFECTIVE METHODS OF NON-FORMAL EDUCATION. AID ALSO IS EXTENDING FINANCIAL AND TECHNICAL COOPERATION. TO THE MINISTRY OF EDUCATION TO ASSIST IN THAT MINISTRY'S IN-DEPTH ANALYSIS OF THE REQUIREMENTS AND DESIGN OF PRIMARY EDUCATION IN THE REPUBLIC FOR THE MEDIUM-RUN FUTURE.

13. AID COOPERATION IN THE DEVELOPMENT OF AGRICULTURE CONSISTS MAINLY OF THREE LOANS. TWO OF THESE LOANS ARE CHanneled THROUGH THE FINANCIAL FUNDS MECHANISM OF THE CENTRAL BANK AND PROVIDE CAPITAL FOR RELENDING TO FARMERS OF MODEST MEANS OF COOPERATIVES LOCATED IN THE GUAYAS BASIN FOR THE PRODUCTION OF RICE, EDIBLE OIL SEEDS, CACAO AND OTHER RELATED FOODSTUFFS, PLUS FINANCING FOR TECHNICAL ASSISTANCE NEEDED BY THESE FARMERS. THE THIRD LOAN IS CHanneled THROUGH THE BANCO DE COOPERATIVAS, PRIMARILY TO PROVIDE CAPITAL FOR RELENDING TO AGRICULTURAL COOPERATIVES TO FINANCE THEIR ACQUISITION OF MODERN CAPITAL INPUTS SUCH AS TRACTORS AND IMPLEMENTS. AID GRANT FUNDS ARE ASSISTING CERTAIN FACETS OF THE ECUADOREAN COOPERATIVE MOVEMENT TO BETTER THE LIFE OF THE RURAL CITIZEN BY IMPROVING ACCESS TO CONSUMER AND PRODUCTION CREDIT, HOUSING AND HEALTH SERVICES. AN ON-GOING LATIN AMERICA REGIONAL PROGRAM ASSETS IN SOLVING SOIL FERTILITY PROBLEMS.

14. HEALTH SECTOR PROJECTS WITH WHICH AID IS COOPERATING FALL INTO FIVE CLASSES. FIRST IS THE NOW VIRTUALLY-COMPLETED MALARIA ERADICATION PROGRAM, FINANCED WITH AN AID LOAN TOGETHER WITH GOVERNMENT OF ECUADOR RESOURCES. SECONDLY, FUNDS ARE PROVIDED IN SUPPORT OF THE FAMILY PLANNING PROGRAM CARRYING OUT THE GOVERNMENT OF ECUADOR'S POLICY OF MAKING FAMILY PLANNING SERVICES AVAILABLE TO ALL ECUADOREANS WHO WANT THEM. THE THIRD MAJOR AREA OF COOPERATION IS THE FAMILY FOOD AND NUTRITION PROJECT,

THROUGH WHICH THE INSTITUTO NACIONAL DE NUTRICION DEL ECUADOR (I.N.N.E.) OF THE MINISTRY OF HEALTH IS BEING STRENGTHENED IN BOTH ITS RESEARCH AND COORDINATION FUNCTION. FOURTHLY, FOODSTUFFS FROM THE UNITED STATES ARE DONATED FOR DISTRIBUTION BY CARE AND CARITAS TO MATERNAL AND CHILD HEALTH FEEDING PROGRAMS, SCHOOL LUNCH PROGRAMS, ORPHANAGES AND THE WORKERS IN A VARIETY OF
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COMMUNITY DEVELOPMENT PROJECTS (MINGAS). FINALLY, A PROPOSED PILOT HEALTH DELIVERY SYSTEM TO BE CARRIED OUT IN AZUAY, CANAR AND LOJA WILL SEEK THE BEST WAY OF ECONOMICALLY DELIVERING REQUIRED HEALTH SERVICES TO THE RURAL POOR.

15. IN ADDITION TO PARTICIPATION IN THE THREE AREAS OF CONCENTRATION, AID IS COOPERATING WITH THE GOVERNMENT OF ECUADOR WITH THREE OTHER LOAN PROJECTS. THESE ARE RUAL ELECTRIFICATION, FEASIBILITY STUDIES (OF AIRPORTS, THE CHIMBO HYDROELECTRIC PROJECT, AND OF SELECTED INDUSTRIES), AND THE SMALL ENTERPRISE PROGRAM OF THE MINISTRY OF INDUSTRY, COMMERCE, AND INTEGRATION/CENTRAL BANK. FINALLY, THERE IS ON-GOING COOPERATION IN NARCOTICS CONTROL.
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